Banister Continental Corporation

1972 Annual Report

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Notice of Annual Meeting
The annual meeting of Banister Continental Corporation will be held on Monday, July 17, 1972, at 10 a.m. CDT in the Directors Room of Northwestern National Bank of Minneapolis, Seventh and Marquette, Minneapolis, Minnesota 55402.

Cover and at left:
A winter sun is reflected on customer's pipe stockpiled on a Banister jobsite in Canada

Banister Continental Corporation
Annual Report for the Year Ended March 31, 1972
Financial Highlights

	Years ended March 31 1972	1971
Gross Revenue	$47,929,000	$25,005,000
Net Income	4,512,000	1,253,000
Per Common and Common Equivalent Share	1.52	.49
Per Common Share — Fully Diluted	1.15	.43
Depreciation	4,328,000	3,623,000
Average Common Shares Outstanding	2,855,000	2,411,000
Shareholders' Equity	33,480,000	17,309,000
Cash and Temporary Investments	17,872,000	12,385,000
Total Assets	55,741,000	48,272,000

Board of Directors
Ronald K. Banister, Chairman
A. John Cressey
Richard A. Fisher
Sidney J. Silberman
Herbert S. Glick

Officers
Ronald K. Banister, President
A. John Cressey, Vice President
Richard A. Fisher, Vice President and Treasurer
Sidney J. Silberman, Secretary
Ronald E. Strom, Assistant Secretary

Executive Offices
9001 Bloomington Freeway
Minneapolis, Minnesota 55420

Subsidiaries
BANISTER PIPELINES LTD.
Edmonton, Alberta, Canada

O. Johanson, President
R. D. Meeres, Vice President
G. R. Caron, Vice President
A. D. Munro, Vice President
H. W. Laslop, Vice President and Controller
K. H. Lambert, Secretary

BANISTER PIPELINES, INC.
9001 Bloomington Freeway
Minneapolis, Minnesota 55420

A. John Cressey, President
V. Williams, Vice President
O. Johanson, Executive Vice President and General Manager

CONTINENTAL COMPUTER ASSOCIATES (N.Y.) INC.
Wyncote, Pennsylvania

M. G. Wolpert, President
S. L. Carr, Vice President
J. R. Barr, Vice President
C. W. Weiss, Vice President
R. A. Fisher, Treasurer

Registrars and Transfer Agents
First National City Bank
111 Wall Street
New York, New York 10022

Bank of the Commonwealth
719 Griswold
Detroit, Michigan 48231

The Canada Trust Company
Montreal — Toronto

Common Stock Listed on:
American Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange

Certified Public Accountants
Arthur Young & Company
First National Bank Building
Minneapolis, Minnesota 55402

To Our Shareholders

The fiscal year ended March 31, 1972, set a record for Banister Continental Corporation.

Revenues reached a new high of $47,929,000, up 92% from 1971's $25,005,000. Net income showed an even larger gain, rising to $4,512,000, compared with $1,253,000 in fiscal 1971, an increase of 260%.

Earnings per common and common equivalent share for the year were $1.52 compared with $.49 a year earlier, based on average shares outstanding of 2,855,000 and 2,411,000, respectively.

We want to emphasize, however, that fully diluted earnings per share in fiscal 1972 were $1.15 as compared to $.43 last year. This is a more realistic figure for comparative purposes since on March 6, 1972, the Company called for redemption its 6½% Convertible Junior Subordinated Debentures due 1989. All but $9,000 of these debentures were converted into shares of common stock towards the end of the fiscal year, thus significantly increasing the number of common shares outstanding at year-end. The diluted earnings figure is important because it takes into account the effect of these additional shares.

The improvement in our balance sheet over that of a year ago is most significant, and it is noteworthy that shareholder equity reached $33.5 million, almost double the $17.3 million reported last year. During the year we prepaid all of our $6.4 million bank indebtedness, and $11.9 million of debentures were converted into common stock, thus reducing long-term debt from $22.9 million to $9.2 million. In addition, our cash resources increased 44% from $12.4 million in 1971 to $17.9 million in 1972.

These favorable developments increased our financial strength and will aid us considerably in reaching our corporate goals.

Computer Leasing
We continue to be pleased with the performance of our computer leasing subsidiary, Continental Computer Associates (N.Y.), Inc., of Wyncote, Pennsylvania. The last 12 months have been a crucial period for Continental Computer since a large portion of the original leases reached the end of their lease terms. This has required an extensive marketing effort, and to date approximately 64% ($19,000,000) of the total portfolio has been extended or remarketed. Currently about 98% of the equipment portfolio is on lease.

Because of recent technological developments, including IBM's introduction of their System 370 series (which is more advanced but also more expensive and complex than the 360 series), we anticipate increasing competition for re-leasing the System 360 computers, and a gradual decline in rental rates. We believe that our experience, plus the growth in the use of computers and the price differentials between the 360 and 370 series, will enable Continental Computer to compete successfully. Experience indicates that customers still desire to enter into leases of 360's for two and three years. Our future lease revenues should be more than adequate to recover the remaining investment in our data processing equipment.

The extent that rental rates have declined in the past is indicated in the following table, which compares the relationship of monthly rental revenues to the original cost of equipment to arrive at an average rental rate (in $000):

Year Ended March 31	Avg. Monthly Rental Revenues	Avg. Accumulated Equipment Cost	Avg. Monthly Rental Rate
1970	$501	$28,734	1.74%
1971	498	29,510	1.69%
1972	477	29,733	1.61%

As part of a program to increase the revenue base of Continental Computer, and thus offset the decline in revenues, we have purchased some used System 360 central processing units, which have been placed on leases ranging from two to three years at what we feel to be very attractive rates. One of these units was purchased just prior to the close of the fiscal year, and three were purchased in April, 1972. We plan to continue a modest program of purchasing System 360 units as the opportunities arise.

Although we feel that our computer portfolio has a long and useful life, we have found that certain peripheral equipment has been difficult and costly to remarket. For this reason, we decided at year-end to write-down some equipment. This resulted in a $622,000 charge to income before taxes. Our consolidated net income figure of $4,512,000 reflects this write-down. Involved in this write-down were Model 2841 disc drive storage control units (over 50% of which are still out on lease), some disc packs and certain types of unit record equipment. We do not presently expect to take any additional write-downs of computer equipment.

Continental Computer is entering the year in a strong financial position, with all of its bank indebtedness retired, leaving only $1,670,000 of 7¼% secured notes due in 1978 and $2,500,000 of 7½% subordinated debt due in 1977.

Based on our analysis of our existing leases plus additional rentals from recent used equipment purchases, we are projecting an increase in revenues and net income for Continental Computer in fiscal 1973.

Pipeline Construction
Our pipeline construction operations, Banister Pipelines Ltd. of Edmonton, Alberta, had its best year in fiscal 1972 as revenues more than doubled.

During the past year, Banister crews laid over 241 miles of large diameter pipe and approximately 60 miles of small diameter pipe in the provinces of Alberta, Saskatchewan, Manitoba and Ontario. For the year ahead there is a substantial volume of work projected for the Canadian pipeline construction industry. We presently have a contract to construct 248 miles of large diameter pipe in Saskatchewan, Manitoba and Ontario which we expect to complete before the winter construction season begins. This work is already underway and will keep our men and equipment fully occupied until then.

In addition to increased activity in pipeline construction, Banister this year made a giant step forward in designing and building a trencher specifically for pipeline construction in the Arctic. Initial tests in frozen ground indicate that this Banister machine will do the job for which it was designed. Powered by two diesel engines, this huge machine will dig a trench 7 feet wide and 9 feet deep. We believe this enormous machine can be utilized for trenching in the southern areas also.

Arctic Pipeline Projects

Major pipelines are being planned to transport oil and gas from the Prudhoe Bay area of Alaska and from the MacKenzie Delta area of the Canadian Northwest Territories. We believe there is a growing need for this additional energy in the United States marketplace and are looking forward to an early start on one or more of these projects. Even if contracts were to be signed soon it is doubtful whether any work could commence prior to 1973, and there is no assurance that the Company will receive a contract for any portion of these lines.

Substantial new oil and gas discoveries have been made in the Arctic Islands. No one has the full technological capability to transport these commodities to market because of inter-island water depths and Arctic oceanic ice conditions. It is anticipated, however, that major research projects will be initiated in the next year or so to develop the expertise to lay pipelines throughout the Arctic Island oil and gas discovery areas. It is our intention to participate in this research so that we will be better prepared for construction of this monumental project when it starts.

Northwest Division Acquisition

As we have mentioned several times, El Paso Natural Gas Company has been ordered by the courts to divest itself of a pipeline facility extending from the San Juan Basin, near Farmington, New Mexico, to Sumas, Washington, on the Canadian border. This pipeline facility includes natural gas gathering systems, gas plants, compressor stations and the transmission pipeline. The form the divestiture will take and the party to whom the system will be divested has been the subject of judicial review for many years. In August, 1970, we became an applicant to acquire this system.

The court has previously made determination as to what reserves will be divested and has asked certain parties to the action to make recommendations on the form they feel the divestiture should take, and who should be the recipient. The hearings have been completed. Final briefs were filed on April 3, 1972, and reply briefs on May 8. It is anticipated that a divestee will be named sometime during the summer of 1972.

Other Matters

As we previously reported, late in 1971 the Company purchased real estate in Naples, Florida, which was subsequently transferred as its capital contribution to a newly formed limited partnership, of which Banister was the limited partner, with a non-affiliated corporation as the general partner. In April, 1972, differences of opinion arose as to the development of the project, and an amicable settlement was reached between Banister and the general partner. The result was that Banister's interest in the partnership will be purchased by the general partner on or before July 15, 1972. We will be paid our entire investment in the property plus interest for the period our money was invested.

In October, 1971, in connection with a 481,250—share secondary offering by certain selling shareholders, warrants for 11,250 shares of common stock were exercised. At the same time 7,500 shares of the Company's 7½% Cumulative Convertible Prior Preferred Stock were converted into 150,000 shares of common stock, and sold as part of the offering. This action, by an institutional holder, retired the last of such stock outstanding.

A Look Ahead

The extremely successful year just completed is going to be difficult to equal; however, fiscal 1973 appears to be a promising year for the Company. We have a good contract backlog in the pipeline construction business, and we are investigating a number of other areas that could enhance our earnings. Our computer leasing subsidiary is expected to maintain a steady flow of income and cash, and we are confident that with the Company's improved financial position we will be able to take advantage of opportunities to continue our growth.

I would like to acknowledge the efforts of all of our employees for their cooperation and for the consistently good job they have done this year. I know I speak for all of the shareholders as well as the Board of Directors when I publicly acknowledge and thank them for their efforts.

R. K. Banister

R. K. Banister
Chairman and President

June 10, 1972

Banister Continental Corporation

Consolidated Statement of Income and Retained Earnings

	Year ended March 31 1972	1971
Revenues (Notes 1 and 2):		
Operating-pipeline construction and computer rentals	$47,391,000	$24,333,000
Interest and other income	538,000	672,000
	47,929,000	25,005,000
Expenses:		
Operating	29,939,000	14,766,000
Depreciation (Notes 1 and 2)	4,328,000	3,623,000
Interest and amortization of deferred charges	1,325,000	2,239,000
Selling, administrative and general	3,204,000	1,933,000
	38,796,000	22,561,000
Income before income taxes	9,133,000	2,444,000
Provision for taxes on income (Note 5):		
Deferred	(354,000)	904,000
Current	4,975,000	287,000
	4,621,000	1,191,000
Net income	4,512,000	1,253,000
Retained earnings at beginning of year	2,748,000	1,551,000
Dividends on prior preferred stock	(33,000)	(56,000)
Retained earnings at end of year (Note 7)	$ 7,227,000	$ 2,748,000
Earnings per share (Note 9):		
Common and common equivalent	$1.52	$ .49
Common assuming full dilution	$1.15	$ .43

See accompanying notes.

Pipeliners at work

Preparation of pipe for doping and wrapping

Banister Continental Corporation

Consolidated Balance Sheet

	March 31 1972	March 31 1971
Assets		
Current assets:		
Cash and temporary investments, at cost	$17,872,000	$12,385,000
Accounts receivable and accrued interest (Note 6)	3,841,000	3,056,000
Deferred income taxes (Note 5)	672,000	—
Other current assets	443,000	477,000
Total current assets	22,828,000	15,918,000
Investment in Bancord, Ltd., at cost (Note 3)	1,057,000	—
Equipment and fixed assets, at cost less accumulated depreciation (Notes 1, 2 and 6)	25,020,000	25,898,000
Cash deposits — compensating balance	—	684,000
Loans to officers	250,000	250,000
Excess of cost over net assets at acquisition, without amortization (Notes 4 and 5)	6,496,000	4,854,000
Deferred charges and other assets	90,000	668,000
	$55,741,000	$48,272,000

See accompanying notes.

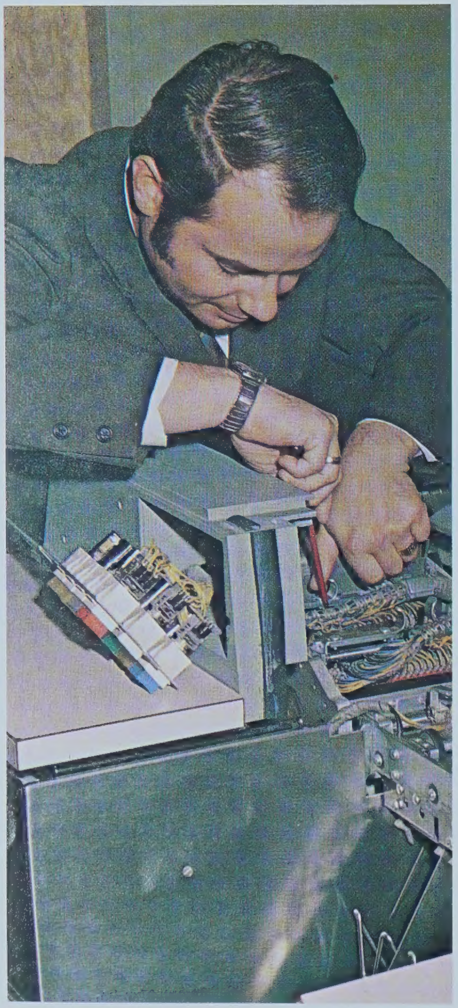
Liabilities and Shareholders' Equity	March 31 1972	March 31 1971
Current liabilities:		
Current installments of long-term debt (Note 6)	$ 262,000	$ 3,487,000
Accounts payable and accrued liabilities	5,182,000	2,547,000
Estimated taxes on income	4,592,000	242,000
Deferred revenues (Note 1)	882,000	—
Deferred income taxes	—	293,000
Total current liabilities	10,918,000	6,569,000
Long-term notes payable (Note 6)	6,890,000	8,753,000
Subordinated debentures convertible into common stock (Notes 6 and 7)	2,325,000	14,185,000
Deferred gain on foreign exchange (Note 1)	267,000	210,000
Deferred income taxes (Note 5)	1,861,000	1,246,000
Total liabilities	22,261,000	30,963,000
Shareholders' equity (Notes 6, 7 and 8):		
Convertible prior preferred stock, $100 par value, authorized, issued and outstanding — none in 1972 and 7,500 shares in 1971	—	750,000
Common stock, no par or stated value, authorized 5,000,000 shares; issued 3,920,159 shares in 1972 and 2,583,157 shares in 1971	26,257,000	13,816,000
Retained earnings	7,227,000	2,748,000
	33,484,000	17,314,000
Less cost of common shares in treasury — 40,750 shares in 1972 and 52,750 shares in 1971	4,000	5,000
Total shareholders' equity	33,480,000	17,309,000
	$55,741,000	$48,272,000

See accompanying notes.

Data processing equipment being readied for shipment

Banister Continental Corporation

Consolidated Statement of Changes in Financial Position



	Year ended March 31 1972	1971
Funds provided by:		
Operations:		
Net income	$ 4,512,000	$ 1,253,000
Add expenses not requiring outlay of working capital in the current period:		
Depreciation and amortization	4,460,000	3,764,000
Utilization of predecessor company tax loss carryforwards	90,000	173,000
Deferred income taxes — noncurrent portion	615,000	928,000
Deduct gain on sale of equipment	(7,000)	(33,000)
Total provided from operations	9,670,000	6,085,000
Proceeds from sale of equipment	500,000	284,000
Additions to long-term notes payable	2,460,000	—
Issuance of common stock upon conversion of subordinated debentures and 7½% prior preferred stock — net	12,459,000	957,000
Proceeds from exercise of stock options and warrants	434,000	151,000
Net proceeds from settlement of predecessor company construction contract	128,000	1,076,000
Foreign exchange gain deferred	57,000	210,000
	$25,708,000	$ 8,763,000
Funds used for:		
Investment in Bancord, Ltd.	$ 1,057,000	$ —
Additions to equipment	3,901,000	1,924,000
Additions to excess of cost over net assets at acquisition	1,860,000	—
Reduction in long-term notes payable and subordinated debentures — net of reduction of compensating balances	3,648,000	2,795,000
Conversion of subordinated debentures and 7½% prior preferred stock into common stock	12,601,000	957,000
Cash dividends on prior preferred stock	33,000	56,000
Other — net	47,000	39,000
Increase in working capital	2,561,000	2,992,000
	$25,708,000	$ 8,763,000

See accompanying notes.

Final inspection prior to shipment

Consolidated Statement of Changes in Financial Position (continued)

	Year ended March 31 1972	1971
Increases (decreases) in components of working capital were:		
Cash and temporary investments	$ 5,487,000	$ 3,735,000
Other current assets	751,000	(929,000)
Current installments of long-term notes payable and subordinated debentures	3,225,000	830,000
Accounts payable and accrued liabilities	(2,635,000)	(563,000)
Estimated taxes on income	(4,350,000)	(231,000)
Deferred revenues	(882,000)	—
Deferred income taxes relating to current assets and liabilities	965,000	150,000
Total increase in working capital	$ 2,561,000	$ 2,992,000

See accompanying notes.

Above: Pumping a water-filled trench

Right: Final ditch preparation

It takes coordination of men and equipment to handle welded pipe

Notes to Consolidated Financial Statements

1. Accounting policies

The consolidated statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. The accounts of the Canadian pipeline subsidiary have been translated into United States dollars as follows:

Current assets and liabilities — at the exchange rate in effect at the balance sheet date.

Noncurrent assets and liabilities — at the exchange rate prevailing at the date of the transaction.

Revenue and expense — at the average rates in effect during the period except for depreciation which has been translated at the rates pertaining to the related fixed assets.

During the year ended March 31, 1971, the Canadian government eliminated the official exchange rate between United States and Canadian dollars. The subsequent fluctuations in the exchange rate have resulted in a deferred gain of $267,000 ($210,000 at March 31, 1971).

Revenues on pipeline contracts are reflected in income on the basis of the percentage of completion of individual contracts. Deferred revenues represent amounts billed on contracts in progress in excess of revenues recognized on a percentage of completion basis. Construction equipment is depreciated on a straight-line basis at rates ranging from 10% to 50% after recognition of a 30% salvage value.

Computer leasing operations — see Note 2.

Equipment and related accumulated depreciation are as follows:

	March 31	
	1972	1971
Construction equipment	$ 8,135,000	$ 5,389,000
Computer equipment	29,926,000	29,667,000
Other	1,020,000	895,000
	39,081,000	35,951,000
Less accumulated depreciation	14,061,000	10,053,000
	$25,020,000	$25,898,000

2. Computer leasing operations

The computer equipment consists of 61 IBM computer systems, including 58 System 360 computers, and related peripheral equipment, acquired for lease to users. At March 31, 1972, the undepreciated balance (net book value) was $18,449,000, which, except for $2,964,000 estimated salvage value, will be 93% depreciated by March 31, 1978, based on current depreciation rates.

This equipment is accounted for under the operating method. Under this method, rental income is recognized ratably over the term of the lease and the cost after recognition of a 10% salvage value of the respective equipment is depreciated for financial statement purposes on a straight-line basis over a ten-year life.

The lease portfolio is composed of leases with initial terms ranging from 12 to 72 months (many of such leases contain non-cancellable periods) and leases on month-to-month renewal. At March 31, 1972, the non-cancellable portions of existing leases provide for future rentals aggregating $4,126,000; 72% during fiscal 1973; 22% during fiscal 1974 and 6% in later periods. Since the non-cancellable unexpired portions of the leases are for less than the remaining estimated useful life of the equipment and provide for payment of less than the undepreciated cost, the Company's ability to recover its investment and make a profit thereon will be dependent upon its ability to extend present leases, remarket, sell or otherwise utilize the equipment on profitable terms.

To date, the Company has kept virtually all of its computer equipment on lease. Through March 31, 1972, the Company had remarketed equipment having an original cost of approximately $11,427,000 and had extended the leases of equipment having an original cost of approximately $7,616,000. Equipment with a net book value of $407,000, representing 2.2% of the computer equipment owned by the Company (original cost $1,463,000), was off rent and uncommitted at March 31, 1972.

The Company performs periodic reviews to ascertain the future economic value of its equipment. At March 31, 1972, as a result of the current review, a write-down of $622,000 was recorded as additional depreciation, to adjust certain equipment to estimated salvage value.

Additional information with respect to economic value of the portfolio based on the facts presently known is set forth in the second paragraph under "Computer Leasing" on page 3.

3. Investment in Bancord, Ltd.

In 1971, the Company purchased unimproved real estate in Florida and transferred this property, as its capital contribution, to a newly formed Limited Partnership with the Company as limited partner and a non-affiliated corporation as general partner. The Partnership was formed to construct a condominium complex and related facilities.

Subsequent to March 31, 1972, the general partner has indicated that it intends to purchase the Company's partnership interest on or before July 15, 1972, at the Company's cost plus interest to the closing date.

4. Excess of cost over net assets at acquisition

Excess of cost over net assets at acquisition resulted from the fiscal 1969 purchase, through subsidiaries, of the Banister pipeline operations. During fiscal 1972, the account has been increased by $1,860,000 to reflect additional notes payable in connection with the Banister acquisition resulting from fulfillment of earnings requirements by the pipeline operations, and has been decreased by the utilization of net operating losses available at acquisition date.

5. Income taxes

Deferred income taxes relate principally to recognizing revenue for book purposes in different periods than for tax purposes and the excess of accelerated depreciation claimed for tax purposes over book depreciation. Deferred tax provisions have been reduced by investment tax credit carryforwards of $177,000 in 1972 and $65,000 in 1971. That portion of the resultant deferred income taxes which relates to amounts included in current assets and liabilities is shown as a current asset or current liability.

In connection with a fiscal 1969 acquisition, approximately $1,051,000 of tax loss carryforwards expiring on March 31, 1973, are available to a subsidiary. As the carryforwards are utilized, the resultant tax benefits are recorded as a reduction of "Excess of cost over net assets at acquisition."

Cumulative tax credits available on a tax reporting basis to offset current taxes payable in future years consist of foreign tax credit carryforwards of $618,000 expiring in various amounts during fiscal years 1974 through 1977 and investment tax credit carryforwards of $615,000 expiring in various amounts during fiscal years 1976 through 1982.

6. Long-term notes payable and subordinated debentures

Long-term notes payable by subsidiaries, less the portion classified as current liability, consist of the following:

	March 31	
	1972	1971
Notes payable to banks bearing interest at 1½% to 2% above the prime rate	$ —	$3,460,000
7¼% secured notes payable to insurance companies due in equal installments, fiscal years 1973 - 1979	1,430,000	1,670,000
7½% subordinated promissory notes due in equal installments, fiscal years 1974 - 1978	2,500,000	2,500,000
7½% subordinated notes payable due in equal installments, fiscal years 1975 - 1981	1,000,000	1,000,000
4% subordinated notes payable due 1983	1,860,000	—
7¾% mortgage due 1977	100,000	123,000
	$6,890,000	$8,753,000

Substantially all the computer equipment and lease rentals thereon (including receivables of $416,000 and $450,000 at March 31, 1972 and 1971 respectively) are pledged as collateral under note agreements with insurance companies.

The Company was not in default under any of the restrictive covenants relating to the above notes.

The 4% subordinated notes due 1983 require prepayments beginning in July, 1973, subject to certain conditions, based on the net income (as defined) of the pipeline operations.

The Company's subordinated debentures, convertible into common stock, consist of the following:

	March 31 1972	March 31 1971
5½% convertible junior subordinated debentures due 1988	$2,325,000	$ 2,325,000
6¼% convertible junior subordinated debentures due 1987	—	540,000
6½% convertible junior subordinated debentures due 1989	—	11,320,000
	$2,325,000	$14,185,000

The 5½% convertible junior subordinated debentures require annual sinking fund payments of $233,000 from December 1979 through 1987. Such payments may be reduced, at the Company's option, by the principal amount of any conversions.

The 6¼% convertible junior subordinated debentures were called in February, 1971. Of the $618,000 outstanding at March 31, 1971, $540,000 in principal amount was converted into common stock prior to April 12, 1971, and the remaining $78,000 was redeemed.

The 6½% convertible junior subordinated debentures were called in February, 1972. Of the $11,320,000 outstanding at March 31, 1971, $11,311,000 in principal amount was converted into common stock prior to March 6, 1972, and the remaining $9,000 was redeemed.

At March 31, 1972, aggregate requirements for the repayment of long-term indebtedness were as follows:

Due in fiscal year	Amount
1973	$ 262,000
1974	763,000
1975	909,000
1976	909,000
1977	909,000
Subsequently	5,725,000
	$9,477,000

7. Shareholders' equity

Changes in common stock issued were as follows:

Balance — March 31, 1970, including 57,000 treasury shares	2,411,520
Conversion of 6¼% convertible debentures	124,637
Exercise of stock options, not including 4,250 shares from treasury	47,000
Balance — March 31, 1971, including 52,750 treasury shares	2,583,157
Conversion of 7,500 shares of convertible prior preferred stock, $100 par value per share	150,000
Conversion of 6¼% and 6½% convertible debentures	1,143,437
Exercise of stock options, not including 2,500 shares from treasury	41,815
Exercise of warrants, not including 9,500 shares from treasury	1,750
Balance — March 31, 1972, including 40,750 treasury shares	3,920,159

Common stock increased $1,108,000 in the year ended March 31, 1971, and $12,441,000 in the year ended March 31, 1972, as a result of the above conversions and exercise of options and warrants.

Of the 1,079,841 shares of common stock authorized but unissued at March 31, 1972, 444,088 shares were reserved as follows:

190,730	for issuance on conversion of 5½% junior subordinated debentures convertible at $12.19 per share, adjustable for dilution.
25,923	for exercise of warrants at $12.73 per share to 1979, adjustable for dilution.
21,000	for exercise of warrants under secured note agreements exercisable at $5.00 per share to fiscal 1979, adjustable for dilution.
206,435	for issuance on exercise of employee stock options.
444,088	

The convertible prior preferred stock was acquired from its holder in October, 1971, by underwriters who converted such stock into 150,000 shares of common stock which was then sold in a public offering.

The Company is authorized to issue 20,000 shares of voting preferred stock, $100 par value. None of the shares have been issued.

Consolidated retained earnings of $4,403,000 are available for payment of dividends at March 31, 1972. The parent company is a holding company and its ability to pay dividends is substantially dependent upon the receipt of dividends from its subsidiaries. The balance of consolidated retained earnings is not available for payment of dividends because of certain limitations in the agreements relating to outstanding indebtedness of subsidiaries.

8. Stock options
The Company has four "qualified stock option plans" under which options may be granted to officers and other key employees. The options become exercisable as to 50% of the shares one year after the date of grant and as to the remaining 50% two years after the date of grant or as prescribed by the stock option committee. All options are exercisable at a price approximately equal to the market value of the Company's common stock on the date of grant of such options. All qualified options granted to date expire three to five years after date of grant.

During 1971, the Company granted nonqualified stock options to purchase 105,000 shares of common stock to two officers. The options become exercisable in installments of one-third of the total number of shares subject to each option in fiscal years 1972, 1973 and 1974 and expire in 1977. These options are exercisable at a price of approximately 91% of the market value of the Company's common stock at the date of grant.

Qualified and non-qualified options as to 144,375 shares at prices ranging from $4.50 to $11.50 per share were outstanding at March 31, 1971. Additional qualified options for 5,940 shares at prices ranging from $10.25 to $20.50 were granted during the year and options for 44,315 shares at prices ranging from $4.50 to $10.25 were exercised. Of the options for 106,000 shares outstanding at March 31, 1972, at prices ranging from $4.50 to $20.50, options for 28,000 shares were exercisable at prices ranging from $5.00 to $11.50 per share. At the end of the year 100,435 shares were available for option grants.

9. Earnings per common share
Earnings per common and common equivalent share were computed by dividing net income after preferred dividends by the weighted average number of common and common equivalent shares outstanding during each year reduced by the number of common shares assumed to have been purchased with the proceeds from the dilutive warrants and options.

Earnings per common share assuming full dilution were determined on the assumption that the preferred stock and the convertible debentures were converted at the beginning of each year and the preferred dividends and interest, net of related tax effect, were added back to net income attributable to common shares.

Earnings per common and common equivalent share would have been $1.20 and $.44 for the years ended March 31, 1972 and 1971, respectively, if all the debentures and preferred stock converted through March 6, 1972, had been converted on April 1, 1970.

10. Retirement plans
The Company and its United States subsidiaries have non-contributory retirement plans covering substantially all of their employees. The total expense of the plans for the year ended March 31, 1972 (the first year of the plans) was $61,000, which includes amortization of past service cost over 10 years. The actuarially computed value of vested benefits at March 31, 1972, is not expected to be in excess of the fund balance at that date.

The Company's Canadian subsidiary maintains a contributory retirement plan for administrative personnel. The annual cost of the plan is approximately $25,000 and there is no unfunded past service cost outstanding in respect of the plan.

Opinion of Certified Public Accountants

The Board of Directors and Stockholders
Banister Continental Corporation

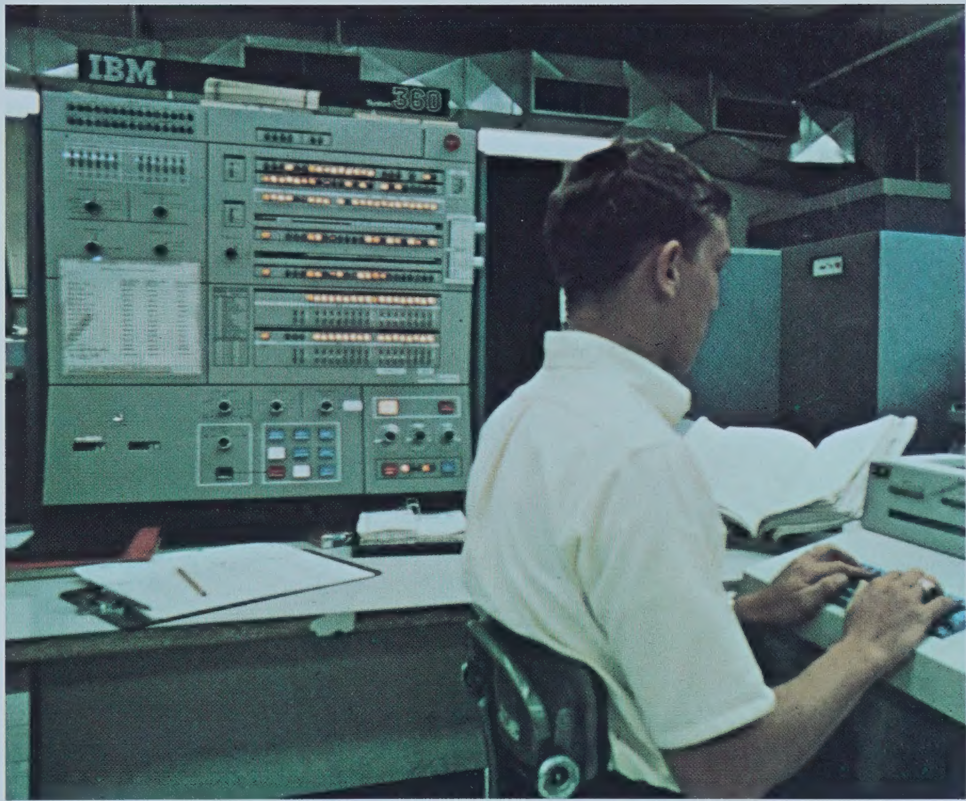
We have examined the accompanying consolidated balance sheet of Banister Continental Corporation at March 31, 1972 and the related consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Banister Continental Corporation at March 31, 1972 and the consolidated results of operations and the changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The financial statements for the prior year were examined by other independent accountants.

Arthur Young & Company

Minneapolis, Minnesota
May 5, 1972



System 360 computers comprise most of the computer portfolio

Banister Continental Corporation

Five Year Summary

	Year ended March 31				
	1972	1971	1970	1969 *	1968
Revenues	$47,929,000	$25,005,000	$26,193,000	$ 9,234,000	$ 2,701,000
Expenses					
Operating	29,939,000	14,766,000	16,357,000	4,631,000	595,000
Depreciation	4,328,000	3,623,000	3,403,000	1,869,000	860,000
Interest and amortization of deferred charges	1,325,000	2,239,000	2,809,000	1,248,000	671,000
Other	3,204,000	1,933,000	1,770,000	824,000	339,000
Total expenses	38,796,000	22,561,000	24,339,000	8,572,000	2,465,000
Income before taxes	9,133,000	2,444,000	1,854,000	662,000	236,000
Provision for taxes on income	4,621,000	1,191,000	849,000	203,000	49,000
Net income	$ 4,512,000	$ 1,253,000	$ 1,005,000	$ 459,000	$ 187,000
Earnings per common and common equivalent share	$ 1.52	$ .49	$ .41	$ .25	$ .14
Earnings per common share assuming full dilution	$ 1.15	$ .43	$ .36	$ .23	$ .14
Average number of shares outstanding	2,855,000	2,411,000	2,290,000	1,614,000	1,036,000
Common shareholders' equity	$33,480,000	$17,309,000	$15,003,000	$ 9,762,000	$ 4,458,000
Preferred dividends	$ 33,000	$ 56,000	$ 56,000	$ 56,000	$ 44,000

*The January, 1969, acquisition of the assets and business of Banister Construction (1963) Ltd. and the Banister Corporation has been treated as a "purchase" and accordingly the consolidated financial statements include the results of the Banister operations since their acquisition.

NOTE: The notes to the current year's financial statements are an integral part of this summary.

Trencher designed by Banister
for pipeline construction in the Arctic

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